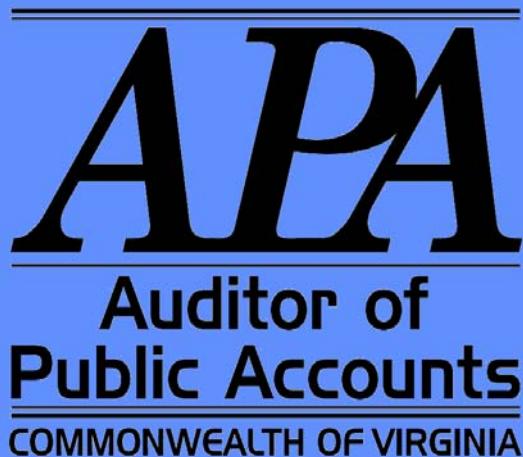


DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2008**



AUDIT SUMMARY

We have audited the basic financial statements of the Department of Alcoholic Beverage Control as of and for the year then ended June 30, 2008 and issued our report thereon, dated September 29, 2008. Our report is included in the Department of Alcoholic Beverage Control's Annual Report that it anticipates releasing on or around December 1, 2008.

Our audit of the Department of Alcoholic Beverage Control of the Commonwealth of Virginia for the year ended June 30, 2008, found:

- the financial statements are presented fairly, in all material respects;
- an internal control matter that we consider to be a significant deficiency; however, we do not consider it a material weakness; and
- no instances of noncompliance or other matters required to be reported under Government Auditing Standards.

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INTERNAL CONTROL FINDING AND RECOMMENDATION

Improve Database Security

The Department of Alcoholic Beverage Control does not ensure compliance with the Department's database security policies and procedures. The Department has policies, procedures, and standards for access review, password management, and security monitoring and logging. However, the warehouse inventory system data owner and database administration staff are not following the Department's policies and procedures and have not for several years.

The Department should provide adequate oversight to comply with the Department's access review, password management, and security monitoring and logging policies and procedures. The warehouse inventory system data owner should review all user accounts and disable all unused or inappropriate accounts. The database administration staff should implement access auditing computer tools, so long as they do not negatively affect system performance.



Commonwealth of Virginia

Walter J. Kucharski, Auditor

**Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218**

September 29, 2008

The Honorable Timothy M. Kaine
Governor of Virginia
State Capitol
Richmond, VA

The Honorable M. Kirkland Cox
Chairman, Joint Legislative Audit
and Review Commission
General Assembly Building
Richmond, VA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited the basic financial statements of the **Department of Alcoholic Beverage Control** as of and for the year ended June 30, 2008, and have issued our report thereon dated September 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that

a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency entitled "Oracle Database Security," which is described in the section titled "Internal Control and Compliance Findings and Recommendations" to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Department's response to the finding identified in our audit is included in the section titled "Agency Response." We did not audit the Department's response and accordingly, we express no opinion on it.

Report Distribution and Exit Conference

The "Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters" is intended solely for the information and use of the Governor and General Assembly of Virginia, the Alcoholic Beverage Control Board, and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We discussed this report with management at an exit conference held on October 2, 2008.

AUDITOR OF PUBLIC ACCOUNTS

DBC:alh



COMMONWEALTH of VIRGINIA

COMMISSIONERS

PAMELA O' BERRY EVANS, CHAIR
SUSAN R. SWECKER
ESTHER H. VASSAR

Department of Alcoholic Beverage Control

CHIEF OPERATING OFFICER/ SECRETARY TO THE BOARD
W. CURTIS COLEBURN, III

2901 HERMITAGE ROAD
P.O. BOX 27491
RICHMOND, VIRGINIA 23261
(804) 213-4400
FAX: (804) 213-4411
TDD LOCAL (804) 213-4687

October 6, 2008

Mr. Walter J. Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, VA 23218

Dear Mr. Kucharski:

This letter provides for the Department of Alcoholic Beverage Control's response to the management point identified during the audit of our 2008 financial statements. The audit revealed that ABC did not follow established policies and procedures for access review, password management, and security monitoring and logging for our MOVE warehouse inventory management system.

The Department of Alcoholic Beverage Control has a very strong system of internal controls and has used the ARMICS process to strengthen controls in many areas. We appreciate input from the Auditor of Public Accounts and have already taken steps to mitigate the control weakness identified during the audit.

By December 1st, ABC will complete an access review of all users of the identified system, institute stronger password requirements, and strengthen system monitoring and auditing functions. Later in the year, ABC expects to upgrade this software and will use our internal audit function to ensure the control requirements migrate to the new version.

As always, we appreciate the diligence and professionalism of your staff along with the opportunity to provide comments for your report.

Sincerely,

A handwritten signature in blue ink, appearing to read "POE", with a long horizontal flourish extending to the right.

Pamela O'Berry Evans
Chairman

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

BOARD MEMBERS

As of June 30, 2008

Pamela O'Berry Evans
Chairman

Susan R. Swecker

Esther H. Vassar